

Highlights:

- B.C. SME confidence rises in August; government supports may be a factor
- Pace of business closures ease in May
- Some re-opened businesses may close permanently
- Payroll counts rise with economic restart, hourly paid employees driving the increase

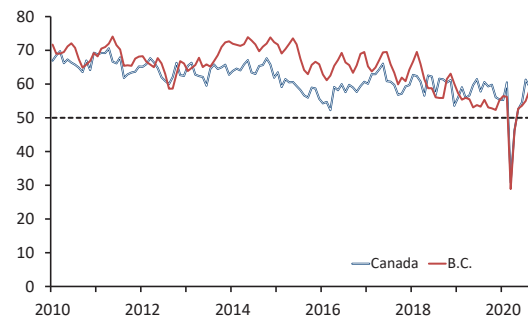
Confidence levels of small businesses edges higher in August

Business confidence among B.C. small and medium sized enterprises (SMEs) edged higher in August according to the Canadian Federation of Independent Business' monthly monitor. Its index, which captures expectation on a 12-month forward basis, rose 1.7 points from July in B.C. to 58.2 points, suggesting on balance slightly optimistic firms. While heading in the right direction, confidence remains relatively low, with historical levels trending near 65 points in a normal growth economy. The Canadian index was 59.2 points. It should also be noted that the indexed may be biased upwards, as marginal firms that already exited during the pandemic may not have responded to the survey, while firms are also re-assessing what a positive outlook means in the pandemic. For harder hit sectors, the federal wage subsidy program, emergency loans program, and commercial rent relief program are providing unprecedented support for businesses amidst the pandemic and government decisions to extend and modify some programs is likely supporting confidence.

The survey also highlighted other positive trends. Capacity utilization is rising, reaching 68 per cent from early April estimate of 39 per cent. Hiring expectations remain weak but is stabilizing. Full-time hiring intentions slipped to 12 per cent, but those looking to cut has stabilized near 28 per cent.

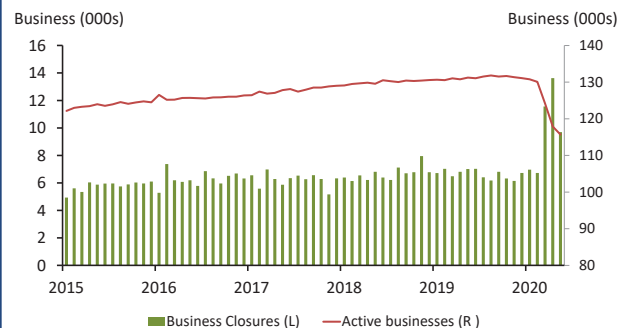
Business confidence edges higher

CFIB Business Barometer



Source: CFIB, Central 1, latest: Aug 2020

Business closures ease in May after early pandemic spike but active businesses decline



Source: Statistics Canada, Central 1, latest: May 2020

Business closures slow in May, risks remains

Statistics Canada released its latest estimates of business closures for the month of May. On the bright side, closures of businesses have eased amidst the initial shock of the pandemic and restart efforts during the month. Nevertheless, levels remained elevated. Total closures came in at a seasonally-adjusted 9,698 businesses during the month, marking a 29 per cent improvement from April's 13,630 closures. While closures occur for a myriad of reasons, the pandemic has forced many to close due to health requirements, or low demand. April closures doubled year-ago levels, and while May levels improved, were still 38 per cent higher than a year ago.

The number of opening businesses declined 5.6 per cent from April and 2.2 per cent from a year ago. While some businesses re-opened following

temporary closures, some entrepreneurs have likely changed course and delayed or abandoned plans for new business ventures. The number of permanent closures will not be known until a year out.

Total active businesses fell 1.9 per cent from April, and 11.8 per cent on a year-over-year basis. Among metro areas, closures slowed, but the number of active businesses continued to erode. On a year-over-year basis, Metro Vancouver recorded the sharpest decline in active businesses (-12 per cent), with near 10 per cent drops in both Kelowna and Victoria. Abbotsford-Mission levels fell seven per cent. Closures have been widespread among industries, but are unsurprisingly concentrated in services sectors related to hospitality, private services, and retail spending.

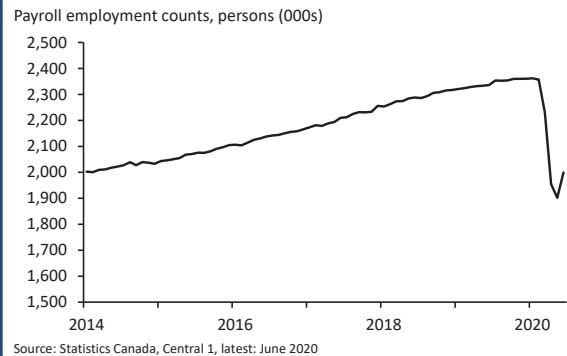
The pace of business closures has likely continued to decline amidst the restart phase while re-openings have picked up. That said, economic uncertainty has likely tempered overall openings. There remain risks going forward. Some re-opened businesses may close permanently given lower revenues and operating capacity in the new environment, while a second wave of COVID-19 remains a concern.

Payroll counts rise with economic restart, hourly paid employees driving the increase

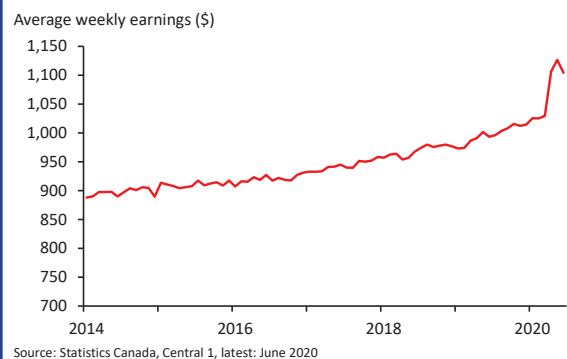
By now it is well established that the labour market recovery is underway. Labour Force Survey (LFS) estimates have shown three months of employment gains through July, with more than half of the peak pandemic losses recovered. That said, levels remain down 6.5 per cent from February. As such, the latest payroll employment data through June largely provides additional context for the recovery phase, but little new information.

Payroll employment estimates from the Survey of Employment, Payroll, and Hours (SEPH), which is based on CRA administrative data and excludes self-employed individuals and farm workers, jumped 5.1 per cent in June to just under two million following a 2.7 per cent decline the prior month. Levels returned to only 85 per cent of February levels. Year-over-year employment was 14 per cent lower than a year ago. Payroll counts have lagged the LFS employment rebound which may reflect a number of factors. Multiple-job holders (such as hospitality and retail employees) may be working, but at fewer establishments as businesses cut back. Survey methodology differences may also be a factor in the deviation, but these tend to revert to trend over time.

Payroll counts turn higher in June, still sharply below pre-pandemic levels



Job losses in lower paid sectors lift headline weekly earnings, declining trend expected



On an industry basis, 14 of 20 industries added employees in June. The largest gains were in those sectors with the largest pandemic driven losses and consistent with LFS patterns. Employment in accommodations/foodservices increased 32.6 per cent, arts/entertainment/recreation rose 11.5 per cent, and other private services increased 16 per cent. Retail trade employment rose 8.1 per cent. Combined, these sectors contributed 65 per cent of the net gain.

Among job tenure, June's gains were predominantly for employees paid hourly where employment rose 9.6 per cent, while salaried employment was unchanged. This is consistent with key industry drivers of June's increase.

Average weekly earnings came in at \$1,104. This marked a two per cent drop from May but a robust 11.2 per cent increase on a year-over-year basis. 12 of 20 industries recorded lower average weekly earnings from May, with significant declines in accommodations/foodservices (-2.5 per cent), information/culture (-4.0 per cent), public administration (-5.2 per cent), and forestry/logging (-11.9 per cent).

There are a number of caveats in the weekly earnings data. Year-over-year growth is robust but at odds with a weak economy. This reflects compositional factors. Lower paid occupations and sectors (many paid hourly) experienced the largest drop in employment, meaning average levels were skewed to higher paid positions in previous months. Declining monthly earnings reflect a combination of weak economic activity but also a return of more lower paid occupations to payrolls and less overtime pay. This trend will continue, and further cut headline weekly earnings estimates.

Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

